

Written Testimony

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Subcommittee on Housing, Community Development and Insurance

The Committee on Financial Services of the United States House of Representatives

By

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Mr. Chairman, Ranking Member Stivers, and Members of the Subcommittee:

Thank you for the opportunity to testify about the difficulties nonprofits have finding appropriate property/casualty insurance from commercial insurance companies. My testimony is directed primarily at the difficulties small and mid-sized community-based nonprofits and their insurance agents and brokers experience in this area. I will also speak about my experience working with a risk retention group to assist these organizations to obtain insurance that is both affordable and appropriate for their needs. In particular, I will describe my experience trying to obtain coverage for one of my clients, Black Lives Matter. Finally, I will express strong support for H.R. 4523, Nonprofit Property Protection Act which will permit a small subsection of established risk retention groups to provide property insurance to their nonprofit members.

ABD Insurance Services is one of the fastest growing private insurance brokerages in the United States, specializing in protecting organizations from risk that can put them out of business. Our company is committed to serving nonprofit organizations who give so much back to our communities. We have done extensive work to help nonprofits secure insurance that is appropriate for them and that they can afford on their always limited budgets. We have clients who deliver a wide range of community-based services including education, animal and environmental protection, care for individuals with disabilities, civil justice, job readiness, and youth programs, to name just a few.

I would like to provide a few examples of the type of work these nonprofits do.

One of our clients provides services to people with cerebral palsy, epilepsy, autism and Down syndrome. They help these individuals find meaningful employment, but also work with them to make sure they enjoy social inclusion and self-determination, leading to emotional and physical well-being.

Another of our nonprofit clients helps find thousands of homes for cats and dogs, including providing shelter and care for those that are injured or sick. They are able to provide this service through a network of volunteers providing foster homes.

Another client works with a worldwide network of women, youth, and Indigenous Peoples to address global problems like climate change, inequality and food scarcity. While yet another nonprofit provides early education for hundreds of low-income children, as well as providing assistance and transportation for fragile adults and children. Yet another nonprofit works with children and adults with interrelated mental health, substance abuse and critical living needs, such as housing and employment. And another works with children and teens in some of our most violent cities by providing options for sports and fitness and academic learning support and enrichment. Still others house children who have been abused, some of whom are now perpetrators themselves.

Importantly, many of these organization bring together our communities through volunteers who provide valuable free labor to these organizations doing things as diverse as clerical assistance, dog training, videography, driving, and teaching computer programming. Volunteers improve the lives of the community and volunteering enriches the lives of the individuals who freely contribute their time, labor and resources.

Insurance Options for Nonprofits are Limited

Even in the best and most competitive of insurance markets, nonprofits are always at a disadvantage when trying to purchase exceptional property and casualty insurance that is tailored to fit their specialized exposures. Out of the more than 150 insurance companies that we work with, only about 3%, yes you heard that correctly, 3% are focused on providing the specialty insurance coverage that nonprofits need to thrive in our communities. And none provide the standalone property that small and mid-sized nonprofits need to pair with the liability insurance they obtain from their own risk retention groups.

ABD is a large insurance brokerage with an extensive selection of insurance companies to offer to our commercial and personal lines clients. But when it comes to our nonprofit clients, particularly small to mid-sized nonprofits providing social services to their local communities, we have very limited access to appropriate and affordable liability and property insurance.

Nonprofit organizations spring from community need and the desire of community-oriented citizens to help alleviate that need. Typically, nonprofits are started for, and grow to fit, the needs of a specific population within a given geographic region. Most of them are started by volunteers who bring their lived experiences to help solve a community need. They represent creative solutions to specific community problems. And, as I indicated early, many of them rely on dedicated volunteers. While this variety and creativity is extremely good for our communities, it can make them challenging for insurance companies to tailor specific coverages for them and provide that coverage at prices that make sense for the small size of these operations.

Trends Further Reducing Insurance Options for Nonprofits

There are a couple of trends occurring simultaneously in the insurance industry that are making securing affordable insurance even more difficult for small community-based nonprofits. First, there is an increasing trend towards automation within the insurance industry. Insurance carriers are trying to take advantage of technology tools such as artificial intelligence to make the evaluation and underwriting of risk more efficient. This makes good sense for insurance companies hoping to shrink their operating margins. However, in the increasingly data driven insurance industry, organizations that cannot fit themselves into an “underwriting box”, as small community-based nonprofits cannot, have fewer and fewer options for insurance. As I indicated early, only about 3% of the more than 150 insurance companies we work with offer tailored insurance for nonprofits. And we see that number shrinking rather than growing.

Another trend making it more difficult for small community-based nonprofits to secure insurance is the continuing consolidation of insurance agents and brokers. While ABD and some others are exceptions, many insurance brokerages will not pay commission to their individual agents and brokers working for them on accounts that don't generate a minimum amount of commission. Many, if not most community-based nonprofits fall below that minimum threshold. Furthermore, small nonprofits rely on their small local insurance agents to obtain their insurance and these agents may not have the premium

volume necessary to gain access to the larger insurance companies that are offering package options.

One additional trend making the limited coverage for nonprofits even more scarce is the recent high-profile nature of sexual abuse and sexual harassment claims. The mission of many nonprofit social service providers is to take care of the most vulnerable in our communities. Nonprofits are often providing around the clock supervision of children, those with developmental disabilities and fragile seniors. Many of the children may have been victims of abuse themselves. These are difficult and demanding responsibilities. Insurance for allegations of sexual abuse is expensive and difficult to find, and, those few carriers that still offer this coverage, typically offer it only as a “package” combining both the property and the liability together, and not offering it as separate standalone coverages.

Finally, the insurance industry is getting ready to enter one of the worst “hard markets” in decades which means sharp increases in premium for all policies holders in the 2020 year and beyond. The insurance markets have suffered record claims and losses due to wild fires, hurricanes, earthquakes, and other natural disasters that are not showing signs of slowing down anytime soon. Since there are only so many insurance markets to purchase reinsurance from, this has resulted in decreased capacity to provide coverage and increases in premium as much as 100% for policyholders. This trend will continue until markets are able to recover in order for the insurance companies to not go out of business. Unfortunately, even though the vast majority of small and mid-sized community-based nonprofits do not have the significant exposures to these risks, they are not going to be exempt from the negative impacts of a hard insurance market. In addition to premium increase, insurance carriers have further restricted the types of nonprofits they will ensure further limiting their access to the insurance needed to protect their missions.

Nonprofits do not tend to be in high rises by the coasts or in densely wooded wildfire prone areas. However, they are going to suffer the increases and coverage reductions if they are part of the general marketplace. Nonprofits tend to be located in the city centers and only a small portion of them have high value buildings. Most nonprofits have the need for coverage provided by the property portion of a Business Owners Policy, not the commercial property form needed by those with more complex property risks. RRGs for nonprofits can demonstrate to reinsurers that they do not have the same exposure to high risk property and, based on the experience of other alternative nonprofit insurance providers, may well be able to shield nonprofits from the worst of the price increases and coverage limitations, in both liability and property insurance.

Nonprofits Need Many Options for their Insurance Needs

Because of all of these trends making it more and more difficult to find affordable and tailored property and casualty insurance for my 501(c)(3) nonprofit clients, a few years ago I began actively working with a risk retention group for nonprofits. The insurance market is changing and there are many alternatives to traditional carriers that have formed to meet the needs of our clients, both for-profit and nonprofit across the country. As part of my due diligence as an insurance broker, I need to make sure that the options I recommend to my clients offer the appropriate insurance policies, have good reputations for fairly paying claims, and are financially strong. I learned about the great reputation of this particular risk retention group and thoroughly reviewed their policy offerings to make sure they were comprehensive.

Furthermore, I know that risk retention groups are strongly regulated in a manner similar to traditional insurance companies. In fact, in reviewing the National Association of Insurance Commissioners (NAIC) website, I noted they describe the many standards that apply to risk retention groups including the same Risk-Based Capital Standards and Risk-Focused Examinations and the uniform standards for regulations risk retention groups based on the Model Risk Retention Act.

The risk that faces us relating to this risk retention group for nonprofits is not related to their financial strength, but related to the property that they are prevented by federal law from offering. Thankfully, this is a risk that Congress can resolve with H.R. 4523. And, I wish to acknowledge and thank Subcommittee Chairmen Green, Clay and Meeks for their leadership on this issue.

Standalone Property Not Available in a Form Nonprofits Need

We are able to obtain liability insurance from the risk retention group for our nonprofit clients, but we aren't able to find good commercial standalone property options to pair with the liability insurance offered by the risk retention group. The **only exception** is a single fronting program, provided through a traditional insurance carrier, for members of the risk retention group. But this program is in a precarious situation as I describe below.

Traditional insurance companies typically require the purchase of liability and property insurance purchased together as a bundled package for small and mid-sized nonprofits. That practice of offering "package" or "bundled" coverage to small and mid-sized nonprofits makes economic sense for insurance companies looking for efficiencies. But it does not work for our nonprofit clients that are members of their own risk retention groups.

As I indicated above, for small and mid-sized nonprofit risk retention group members we are essentially relying on a single “fronted program” for the property policies. The carrier that is providing the capacity for standalone property insurance for small nonprofits is looking to leave this market because it is simply inefficient for them to provide these small policies on a standalone basis. This is an unreliable position for both these nonprofits and their insurance brokers which are relying on this single source of property insurance whose continued existence is in doubt. Thankfully, this imminent crisis can be resolved by H.R. 4523, Nonprofit Property Protection Act.

H.R. 4523, Nonprofits Property Protection Act, is a Prudent Solution

The bill presently under consideration, H.R. 4523, Nonprofit Property Protection Act, puts additional requirements on risk retention groups that may offer property insurance. It requires those risk retention groups to have a minimum of 10 years offering liability insurance and a minimum of \$10 million in capital and surplus. A risk retention group regulator can certainly require higher limits of capital and would do so if required by Risk-Based Capital Standards.

I would like to close with just one example of why it is extremely important that risk retention groups for nonprofits continue to exist. I am the insurance broker for Black Lives Matter. My experience of trying to find property and casualty insurance for them has solidified my support of risk retention groups and their important role in supporting new and emerging community-based, civil justice organizations. I spent nearly a year and endured rejections from 90 traditional insurance companies in my efforts to find basic liability insurance for Black Lives Matter. Insurance underwriters reacted to sensational headlines, rather than examining the actual operations of this organization. Ultimately, it was nonprofits’ own risk retention group that provided the necessary coverage. Without insurance, organizations like this cannot obtain financial support through fiscal sponsorships, rent facilities, receive permits to hold rallies, raise funds from government sources or engage the services of individuals willing to provide services as volunteer board members. I am proud of the industry I have chosen for my career, but this experience made be see very clearly how not having access to insurance can impede the important work of community-based organizations.

We have found the risk retention group solution to be an excellent one for many small and mid-sized community-based nonprofits. We cannot stress strongly enough how important it is that H.R. 4523 become law so that well-capitalized and seasoned risk retention groups are able to provide property insurance to their members.